

From: Vastola, Richard
Sent: Thursday, December 10, 1998 8:47 PM
To: Elste, Craig; Lardieri, Lesa
Cc: McPhillips, Tom
Subject: AWP-0117062_History of AWP

OK, here is a brief explanation of AWP. Remember, do not quote me on this! I also suggest that you do not put this info in any written documents.

AWP was, at one time, calculated by surveying 10 or more wholesalers and then calculating an average markup. This was back in the days when there were many wholesalers, when drug prices were relatively low, and when wholesalers actually depended upon the markup for a large part of their profits.

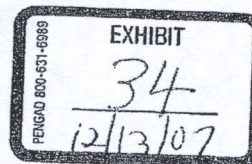
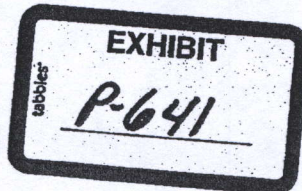
For many years, however, AWP has been a standard 20% over Manufacturer's listed wholesale price (for companies defined as wholesale only) and 25% for Manufacturers who are defined as direct (meaning that they sell to direct accounts as well as wholesalers). In other words, the pricing services no longer survey and calculate AWP, and AWP is now a universal number instead of varying from year to year and from pricing service to pricing service. This has occurred for many reasons, among which are the fact that, while AWP still is used as the basis for calculating reimbursements, actual wholesaler markups declined years ago as the wholesale industry consolidated and the large wholesalers were able to generate profits from the cash float (owing to the volume of business and the higher cost of drugs). As you know, wholesaler markups are now between 1 and 3 percent, and are sometimes zero or even slightly below cost. Since the government still relied on AWP for calculating reimbursements, the pricing services stopped surveying and began using the standard AWP calculations. (As the gap between the artificial and the real number has grown, the AWP has become an artifact rather than a number based on reality.)

As to Zolof, when the product was first launched we somehow got the AWP calculated at 20% in an attempt to be more competitive with Prozac. (I don't remember the details, but I believe that California and MediCal were involved in this situation.) In any event, pharmacists soon complained that they were not getting the proper reimbursement for Zolof, since the AWP was 5% lower than it should have been. Since Pfizer is a "direct" company, the AWP should be 25% over wholesale, so we had no problem getting the number changed back to 25% for Zolof.

Given all this, for a competitor to approach an HMO with an AWP to calculate cost differences between products is specious at best and totally Clintonesque (ie. dishonest) at worst. Listed wholesale prices would be more accurate, and contract prices even more so.

Hope this is of use - feel free to call if any questions.

Rich V



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PF-WI00103492